A CRITICAL LOOK AT THE NECESSITY OF SMALL BUSINESSES IN NIGERIA. A THEORETICAL REVIEW

Ikenna Franklin Eze
Faculty of Business and Management Sciences
Cape Peninsula University of Technology, South Africa

Ephias Ruhode
Faculty of Informatics and Design
Cape Peninsula University of Technology, South Africa

Chux Gervase Iwu
Faculty of Business and Management Sciences
Cape Peninsula University of Technology, South Africa

Abstract
The significance of small businesses in any economy can no longer be ignored. As a result, it is necessary to continually seek ways of improving their outcomes. The objective of this paper is to identify major obstacles that hinder the growth of small and medium enterprises in Nigeria. The paper benefits from insights from extant literature to identify four key themes namely lack of business management skills; insufficient/non-functional infrastructure; regulatory demands; dissatisfaction with self-management of business; and inability to apply technology. These are discussed giving way to our concluding remarks which come in the form of an inventory of ‘to-do’ items that need to be focused on in order to arrest the continual slippery slope state of small businesses in Nigeria. Our thesis is that nations without a vibrant small and medium enterprise ecosystem suffer from its absence.

Keywords: small and medium enterprise, sustainability of small businesses, Nigeria, enterprise development

JEL Classification: L26, M13, M15, 033

Contact: ikerossenerri@yahoo.com The author declares that he has no relevant or material financial interests that relate to the research described in this paper. Also, the author declares that the submitted paper is his original work and that, upon publication, nothing contained in it will not constitute an infringement of any copyright. Paper received 20.02.2018. Approved 14.04.2018. This paper is licensed under the Creative Commons Attribution-Non Commercial-No Derives 3.0. License. This paper is published with Open Access at www.socioeconomica.info. The author would like to thank the reviewers of this journal for their valuable comments and suggestions on the earlier version of this paper. The quality of this paper has greatly improved from those comments.
1. Introduction

According to the World Bank (2015), 600 million jobs are needed in the next 15 years worldwide to absorb a growing global workforce. Consequently, small businesses have received immense attention around the world in both developed and developing economies, due to their net significance in employment around the world (Fierro, 2015; Buculescu, 2013). With the rate of unemployment in Nigeria, small businesses have become stakeholders in the area of poverty alleviation and job creation, especially when you consider their roles in terms of improving the lives of the people and owners of businesses. Nigerian government acknowledges the importance of small businesses in socioeconomic development by prioritising several of its programmes. Notable among these are Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), National Directorate of Employment (NDE), Peoples Bank of Nigeria (PBN), Microfinance Banks, National Economic Reconstruction Fund (NERFUND), National Bank of Commerce and Industry and the National Economic Empowerment and Development Scheme (NEEDS). Despite these efforts, research still documents that 70% of small businesses fail in their first three years of operation in Nigeria (Akingbolu, 2014). This is even more disturbing when one considers that 60% of businesses in the country are on a small scale level (Okeke Ezenwafor & Femiwole, 2013) and employ 90% of the labour force (Ahmed, 2012). Fascinatingly, Chuta (2012) observed that SMEs in Nigeria are like fish out of water, owing to the difficulty they go through to remain ‘alive’. Several factors have however been suggested for the sluggish pace of development of small businesses in Nigeria. Some of these are presented in the table below.

<table>
<thead>
<tr>
<th>Author</th>
<th>Factors responsible for the slow growth of small businesses</th>
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<tbody>
<tr>
<td>Farrington, (2012)</td>
<td>Found that many of the owners of small business in Nigeria are dissatisfied with being self-employed which eventually leads to the failure of the business</td>
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<tr>
<td>Okpara, (2011)</td>
<td>Revealed that lack of proper management skills was a great challenge for small businesses in Nigeria</td>
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<tr>
<td>Olatunji (2013)</td>
<td>In their study of small business in Nigeria found that lack of management skills and inability of owners/managers to distinguish from business and personal saving and lack of basic book keeping was challenges faced by small businesses in Nigeria</td>
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<tr>
<td>Etebefia &amp; Akinkumi (2013)</td>
<td>Found that funding was the main source of small business failure in Nigeria and that financial institutions avert SME loans</td>
</tr>
<tr>
<td>Agwu &amp; Emeti (2014)</td>
<td>In their study confirmed that multiple taxations as a major challenges or small businesses in Nigeria</td>
</tr>
<tr>
<td>Ekpo &amp; Bassey (2016); Alarape (2014)</td>
<td>Stressed that power supply is grossly inadequate to meet the Nigerian needs which give rise to use of small generators to power small businesses resulting in high overhead cost</td>
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<tr>
<td>Shehu et al. (2013)</td>
<td>Found that poor strategic planning, poor understanding of the use of technology in business, and a lack of management skills and competencies in record keeping were the challenges faced by small businesses in Nigeria</td>
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</tbody>
</table>

The factors identified above can be thematically summarised as follows:
(1) Lack of business management skills;
(2) Insufficient/non-functional infrastructure;
(3) Regulatory demands;
(4) Dissatisfaction with self management of business; and
(5) Inability to apply technology.
While the above factors may be overwhelming to a small business owner in a country that struggles with general economic growth such as Nigeria, it is equally worth noting that these factors are not unique to Nigeria.

The next section looks at the challenges faced by small business in other countries.

Challenges of small businesses in other countries

In South Africa, the challenges faced by small businesses as revealed by Fatoki (2014) are internal factors, such as poor attitude to customers, poor management experience, poor training of staff and lack of business planning. In fact, as a result of low level of education, most owners of small businesses in Ghana are unable to provide sufficient management to their businesses. This was contained in a report by Aryeetey et al (1996) who also added that little formal education placed severe managerial burden on owner/managers of small businesses overall. Making a similar point, Steel (1996) was of the view that owing to lack of business management skills, owner/managers of small businesses are unable to fully take advantage of marketplace opportunities.

In Uganda, it was found that the inability or difficulty of small businesses to secure loans was the major challenge faced by small businesses. USE Brochure (2013) indicates that lack of collateral from Uganda’s small businesses was the reason behind their inability to secure loans from financial institutions. In Kenya, it was found that access to markets and marketing information is a severe constraint to small business development. GOK (2005) points in the direction of insufficient information and high transaction costs as reasons for low demand for products and services.

Ivory Coast faces almost similar challenges as enumerated above, but owing to stricter regulatory environment, delapidated infrastructure, instability in the political economy and high crime rates, small businesses are even more challenged (WBES, 2010).

2. Methodology

This paper was written with using the descriptive literature review method. The descriptive literature review method is commonly known as a structured undertaking which locates, gathers and appraises written works on a particular field with the intention of discovering any interpretable patterns or trends regarding that field. This method of science is normally undertaken with the intention to understand and possibly provide the basis for arguments about certain phenomenon in a particular field (King & He, 2005). Basically, this method offers researchers a diverse platform to enrich themselves and their audiences (Pare, Trudel, Jaana, & Kitsiou, 2015; Rumrill, Fitzgerald, & Merchant, 2010; King & He, 2005). We considered this method appropriate following the considerations of authors such as such as Grant and Booth (2009); Yang and Tate (2012); King and He (2005); Bragge, Relander, Sunikka and Mannonen (2007) who regard the descriptive literature review method as the authentic source for quality body of knowledge. To ensure that both our review and analysis were trustworthy, we made use of various sources including technical reports, published and unpublished monographs notwithstanding Podsakoff et al’s (2005) belief that true scientific knowledge could only be found in journal articles.
3. What really is a small business?

With a rising interest in SME’s globally, there have been many attempts to define it. Because of the several definitions, there is no generally accepted definition for SME’s (Berisha & Pula, 2015). Due to the imprecise definition of SME, the terms small business, small and medium enterprise (SME) and small, medium and micro enterprises (SMME) have all been commonly used interchangeably. Generally, SMEs are defined based on size, capital base or method of production (Abor & Quartey, 2010:218-228). Even though there is no definitive characterisation of an SME, researchers have so far identified with its characterisation along regional, continental and organisational lines.

International perspective

In Malaysia, the prime minister on July 13th 2013 changed the definitions of SMEs which took effect on the 1st of January 2014. In this case, a micro enterprise is a business with sales turnover of less than RM 300,000 or employs less than 5 workers. It also considers a business with sales turnover from RM 300,000 to less than RM 15million or employs from 5 to less than 75 workers (SME Corporation Malaysia, 2018).

In South Africa, small businesses are classified into four categories, namely; micro enterprise, very small enterprise, small enterprise and medium enterprise (Smith & Watkins, 2012). Micro enterprise refers to any company with a turnover that is less than the annual VAT registration, which is R 150,000 and which employs not more than five people. Very small enterprise is regarded as any enterprise which employs between six to twenty full time workers, with annual turnover of R200, 000 to R500, 000. A small enterprise is usually any company whose workers are less than fifty, with an annual turnover of R22million to R25million while a medium enterprise is defined as a company having fewer than 100 to 200 workers and an annual turnover of less than R4million tor R50, 000,000 (National Small Business Act Amendment no 26 of 2003).

In Zimbabwe, a small business is regarded as any registered company which employs not more than 50 people and an asset not exceeding three million Zimbabwe dollars. While a medium enterprise is regarded as an enterprise with 75-100 workers with an asset not more than 12million Zimbabwe dollars (Chingwaru, 2014).

In Ghana, Abor and Quartey (2010) define SMEs as companies with less than 10 workers, with assets in form of equipment, excluding vehicles and property not more than ten million Ghanaian cedi. However, this definition could be rendered invalid because the value of assets could depreciate over time. Abor and Quartey (2010) went ahead to classify small business in Ghana into three groups; small enterprise as enterprise with ten to twenty-nine workers, micro enterprise as an enterprise with less than five workers and very small enterprise as companies with only six to nine workers.

In the United States of America, small businesses are regarded as any enterprise with less than 250 workers depending on the industry and whose annual turnover is less than $10 million dollars depending on the industry (United States international trade commission, 2010).
There have been several descriptions of a small business in Nigeria, which range from characterisations according to staff size, size of investment, annual turnover, market share and other factors (Fatai, 2012; Ogechukwu, 2011).

The most recognised definition of SMEs in the Nigeria context is according to the Small and Medium Enterprise Development Agency of Nigeria (SMEDAN, 2013), which define a micro enterprise as a company with one to nine workers, whose annual turnover is less than 10 million Naira. They went on to define small enterprise as an enterprise with ten to forty-nine staff whose annual turnover is less than 22 million Naira. They also define medium enterprise as any company with fifty to a hundred and ninety-nine workers and whose annual turnover is more than 50 million Naira.

<table>
<thead>
<tr>
<th>Size of enterprise</th>
<th>Number of employees</th>
<th>Annual turnover (Naira)</th>
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<tbody>
<tr>
<td>Micro</td>
<td>1-9 workers</td>
<td>Less than 10 million Naira</td>
</tr>
<tr>
<td>Small</td>
<td>10-49 workers</td>
<td>Less than 22 million Naira</td>
</tr>
<tr>
<td>Medium</td>
<td>50-199 workers</td>
<td>More than 50 million Naira</td>
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</tbody>
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Source: Authors’ own configuration adapted from SMEDAN (2013)

The importance of small businesses in Nigeria

SMEs are important because they create jobs that engage low skilled workers and they contribute towards Gross Domestic Product (GDP). With regards to job creation, SMEs on average provide over 90% of employment in countries such as Nigeria, Malaysia and Indonesia (Ahmed, 2012). Agreeing with this point, Ahiawozi and Adade (2012) and SEDA (2012) said that given the relatively large number of SMEs when compared to large enterprises, they contribute significantly to the GDP of the countries in which they operate.

In Nigeria, SMEs employ over 90% of the labour force (Ahmad, 2012). Through job creation, SMEs help to alleviate social problems that arise due to unemployment such as suicide, crime, prostitution etc. (Madueke, 2012). Alaye-ogun (2012) is of the opinion that small businesses help in the development of local technologies.

It is generally agreed amongst researchers (see Nxopo, 2014, Gwija, Eresia-Eke, Iwu, 2014) and other stakeholders that small businesses bring about significant socioeconomic transformation wherever they are situated. This is usually evident in the social amenities that are available in such spaces. Essentially, this is testimony to the arguments of several researchers that small businesses cannot be sustained without functional infrastructure.

Consequences of failure of small businesses in Nigeria
Majority of the workforce in developed economies are employed by small and medium enterprises (Ahmed, 2012). When these small businesses fail or do not do well, jobs will be lost, owner/managers suffer financially, socially and psychologically (Ucbasaran, Shepherd, Lockett & Lyon, 2013) leading to extreme emotional and traumatic experience (Cope, 2011; Shepherd, 2003) for them and their families and friends. This basically means that the likelihood of a spike in social problems such as suicide, crime, prostitution is imminent. Furthermore, the gross domestic product (GDP) will fall causing problems such as high inflation and increase in poverty. Business failure can further lead to a reduced income for the government in the form of taxes paid by these small businesses and increased expenditures on crime prevention by the government (Fatoki, 2014). Small businesses are essential for competitiveness in the marketplace. Without small businesses, marketplace will be dominated by the large firms, and prices of goods and services would be high. SMEs help to attract infrastructures in the community that they are situated. Social amenities such as: road, electricity, pipe-borne water, telecommunication facilities, etc., are attracted to the area as a result of the presence of SMEs in the community but when they die, the community do not get these social amenities.

Furthermore, continuous failing of small businesses will discourage potential business men or women who are thinking of starting their own businesses. At the same time it would become more difficult to access loans from the financial institutions who will make the conditions for accessing loans stricter for new entrepreneurs because of the uncertainty in owning a business.

**Recommendations for the sustainability of small businesses in Nigeria**

A qualitative study by Du and Banwo (2015) found that the support given to SMEs by the Nigerian government was nothing when compared to the size of the sector in the economy. Fatoki, (2014) suggests that political parties and government should create an enabling environment for small businesses to thrive. Government regulations and tax should be minimal and reasonable (Mahlaka, 2014). Government support for small businesses is critical, they should ensure that owners/managers of businesses are properly trained.

Recently, research has indicated that social media can help small businesses to market their brands which in turn will mean more sales and exposure for their business (Zafar et al, 2017). Findings of a study on benefits of IT on small businesses conducted on more than 4000 SMEs in five of the world’s diverse economies (USA, Germany, China, India, Brazil) found that small businesses who were more tech-savvy outperformed small businesses using little or no tech in their business (Ayala, 2013). Ayala also confirmed that small businesses using some form of technology have grown their business and reduced cost and have also increased their work productivity.

Facebook has more than 2.2 billion active users as of January, 2018. This is not surprising because social media technologies are rapidly becoming an important part of people’s lives. People use them to read comments, share, and create content (Chen and Sakamoto, 2013). In this light, businesses can leverage social media as a tool to market their products and services for the world to see.
Furthermore, in a recent report by Pew Research (2015), it was found that accessing social network sites was one of the top five activities amongst cell phone owners in seven sub-Saharan African countries, namely Ghana, Kenya, Nigeria, Senegal, South Africa, Uganda, and Tanzania. More recently, Nigeria has been categorised as having the largest internet users in Africa and 8th in the world (Eniola & Entebang, 2015). This number is anticipated to increase based on the high mobile intake and improved internet connectivity in Africa. This has strengthened the importance of digital marketing for small businesses as it enables them to access a wider range of audience through mobile phones.

Social media offers tangible benefits to small businesses which include:
1) They provide a platform for constant engagement with customers (Kim, Jeong & Lee, 2010).
2) They help small businesses to scale up their business by facilitating growth (Tuten & Solomon, 2015).
3) They facilitate market access for small businesses (Kiveu & Ofafa, 2013).
4) They offer greater market accessibility and the ability to nurture strategic partnerships and relationships with customers and suppliers (Jagongo & Kinyua, 2013).
5) They help businesses to target potential customers by age, sex, location, and whole host of other demographics.

By ignoring social media, organisations are highly likely to experience adverse implications such as failure to maintain constant contact with customers or suppliers.

4. Conclusion

It is becoming increasingly clear to governments and policy makers that SMEs are important for the growth, development and reduction in poverty of the citizens of any nation. Small and medium scale enterprises are long believed to be instruments of economic growth and development. This has been true in developed economies as experienced from United States of America, Britain and Germany. SMEs have contributed greatly to the employment of citizens, reduction of poverty and crime. In recognition of the importance of small businesses, the Nigerian government created various agencies to help these small businesses in Nigeria to succeed like their counterparts in developed economies. In spite of the efforts by the government, most small businesses still fail within three years of operation in Nigeria. But reports have shown that using some form of social media will help these businesses to be visible, attract customers, interact with their potential clients, and market their products which will help businesses to flourish and in return help reduce the unemployment situation in Nigeria. Other panaceas have been suggested namely reduction in red tape (over-regulation), functional infrastructure (good road networks, constant power supply), and opportunities for self-development and training.

REFERENCES


